



The Pakistan Credit Rating Agency Limited

Rating Report

K-Electric | ICP-15

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
02-Jun-2021	AA	A1+	Stable	Initial	-
26-Feb-2021	AA	A1+	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The ratings reflect sustained performance metrics of the company. Amid COVID-19 Pandemic despite unfavorable circumstances company has maintained stability in its turnover as reflected in the published financial statements for FY20 as well as 1QFY21. Business risk profile draws support from growing demand for electricity and continuous improvement across various operational metrics; however, COVID-19 has resulted in various challenges, with additional directives from the Government for power companies, aimed at consumer facilitation. In FY20, the improving trajectory of T&D losses has been affected while growth in unit sent out was also lower than projected. These factors along with a significant increase in finance cost, caused a dip in net profits compared to the preceding year. However, with the economic activity revival post COVID-19 lockdown, units sent-out in Q1'FY2021 increased by 7.3% vis-à-vis corresponding period last year with K-Electric posting a net profit in Q1'FY2021. There was rationalization in the trade debts. A significant jump has been noted in the other receivables, primarily due to outstanding balances and tariff differential claims. Thus, for additional cash and to fulfill working capital requirement company is resorting to short term debt avenues. Till date K-Electric has issued a series of fourteen Islamic Commercial Papers, among these five ICPs (ICP-10, ICP-11, ICP12, ICP13 & ICP14) worth PKR 19.4bln are not yet due for redemption while the rest are redeemed timely. Furthermore, K-Electric has also issued a Sukuk bond of PKR 25bln. The company continued to add to its asset base: expansion was noted in plants, distribution and transmission. There has been increased in payable side that is mainly due to power purchase from CPPA-G/NTDC (800 MW) which as per the agreed mechanism are to be adjusted with TDC.

The performance metrics in the ongoing financial year has shown similar trends with more focus on the production and sale of power units. At the same time, upholding business and financial metrics is of utmost importance. The company has bridged its gap in regulatory timeline for the publication of financial statements.

Disclosure

Name of Rated Entity	K-Electric ICP-15
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-20),Methodology Debt Instrument(Jun-20),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria Rating Modifier(Jun-20)
Related Research	Sector Study Distribution Electricity(Jan-21)
Rating Analysts	Sana Shameen sana.shameen@pacra.com +92-42-35869504



The Pakistan Credit Rating Agency Limited

K – ELECTRIC LIMITED PROFILE	
Incorporated	1913
Major business lines	Vertically-integrated power utility
Legal status	Public Limited(Listed)
Installed Capacity	2,267MW as at 30 th June,2020.
No. of Consumers	~3.4 Mn
Head Office	Karachi

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> ▪ Pakistan total power generation is increasing on the back of new power projects under CPEC ▪ Pakistan's energy mix is shifting towards Gas/RLNG and coal from Furnace Oil and other expensive sources ▪ Gas fired power plants have lowest per unit cost among all fossil fuel power plants.

PROFILE & OWNERSHIP

- K-Electric Limited, a vertically-integrated power utility, has been in operations for over a century.
- Total installed capacity of K-Electric Limited power generation plants is 2,267MW as at end-June20. K-Electric Limited has an arrangement with external power producers for ~1,400 MW including 800 MW from the National Grids.
- The company is ~66% owned by KES Power Limited, while GoP holds ~24% stake. However, KES Power Limited is majority owned (~54%) by Abraaj with the balance held by a group of investors (Al Jomiah, Saudi Arabia and NIG, Kuwait). KES Power has entered into a Share Purchase Agreement with Shanghai Electric Power Company Limited (SEP) for sale of up to 66.4% shares of K-Electric Limited. The transaction will close once customary closing conditions and requisite regulatory approvals are obtained.

GOVERNANCE

- The company's board of directors comprises of thirteen directors. Mr. Shan A. Ashary currently is appointed as a new Chairman of the Board effective 7 September 2020. All the board members are seasoned professionals having interests in various sectors of the industry.
- There are six committees at the board level, namely i) Audit, ii) Finance, iii) Human Resource & Remuneration iv) Strategy & Projects Committee and v) Risk Management & Safety, vi) Board Regulatory Affairs Committee This ensures effective oversight of the company's affairs and strengthening the board's governance role.
- GOP has notified on 22 May 2019, Multiyear Tariff (MYT) for K-Electric Limited for the period of seven (7) years applicable from 1 July 2016 to 30 June 2023.

MANAGEMENT

- The management control of the company vests with KES Power Limited, being the largest shareholder.
- Mr. Moonis Alvi has been spearheading the company since being the CEO in June 2018. He has also previously served as the Chief Financial Officer of K-Electric Limited.
- The organizational structure of K-Electric Limited is divided into three main business areas, namely (i) Generation, (ii) Transmission, and (iii) Distribution. Meanwhile, support functions such as Treasury & Corporate Finance, Marketing, and HR, supply chain etc. are centralized at the company level and are headed by professionals having considerable experience in their respective fields.
- 110th Annual General meeting of K-Electric was held through video conferencing on November 26, 2020.

BUSINESS AND OPERATIONAL RISK

- Drops in consumption by industrial and commercial consumer segments, load-shed exemption to high-loss areas and inability to carry-out theft detection activities, adversely impacted the sales mix leading to an overall increase in T&D losses. (FY 2020: 19.7%; FY 2019: 19.1%) along with the decline in units sent-out in the last quarter, recording an annual growth of 0.5% in units sent-out (FY 2020: 17,787 GWh; FY 2019: 17,697 GWh). These factors along with a significant increase in finance cost, resulted in PKR2.96 billion net loss, compared to PKR17.3 billion net profit in the preceding year. However, later with economic activity revival post COVID-19 lockdown, units sent-out in Q1'FY2021 increased by 7.3% vis-à-vis corresponding period last year with K-Electric posting a net profit of PKR 1,111mln in Q1'FY2021.
- K-Electric Limited has a registered customer base of ~3.55mln at end-June20 (FY19: ~3.3mln), of which 79% constitute residential consumers, 19% commercial, Industrial 2.3%, and remaining comprises the agriculture sector and public consumers.
- TP-1000 is a transmission enhancement project by K-Electric Limited of over USD 450mln which will enable the utility to enhance transmission capacity by 1000 MVs. To date more than 90% of the project has been completed - 6 grid stations and 26 power trafos have been added under the project. KE is setting up a 900 MW RLNG Project. Effective and timely execution of project is likely to further uplift company's profile in medium to long term.
- Amid Covid-19 global pandemic, KE has received a TDC receipt of PKR 25 Billion post approval of ECC. It helped Company to continue to pay fuel suppliers and IPPs, with consideration that consumers have been offered a longer payment term in this critical time.

PERFORMANCE

- Units billed during FY20 have decreased to 14,277GWh (FY19:14,318GWh; FY18:13,860GWh). The total amount billed to customers for the period under review observed growth (FY20: PKR 262,381mln; FY19: PKR 230,402mln; FY18: PKR 222,703mln).
- Recovery ratio shriveled to 89% during FY20 (FY19: 90.8%). Furthermore, the management is anticipating improvement in public sector recoveries on account of settlement of old recoveries from KWSB.

FINANCIAL RISK

- During FY20, total receivables of the company are reported at PKR 99,832mln (FY19: PKR 99,928mln) owing to delay in public sector recoveries and the prevailing circular debt crisis in the country.
- The company has strong cash generation ability. But a significant jump has been noted in the other receivables, primarily due to outstanding balances and tariff differential claims. This on the other side has placed constraints on cashflow streams, and for working capital requirement company is resorting to short term debt avenues. The leverage is in the comfortable range, particularly in the context of equity base. The equity base itself is strong.

ABOUT THE INSTRUMENT

- K-Electric has issued an Unsecured Privately Placed Islamic Commercial Paper (ICP-15) of PKR 4,500mln to finance the company's working capital requirements. The tenor of ICP-15 is up to 6 months and carries a profit rate of 6 months KIBOR+60bps. Profit will be realized at the time of maturity. ICP-15 is part of series instruments comprising ICPs which will be utilized for funding K-Electric working capital requirements.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

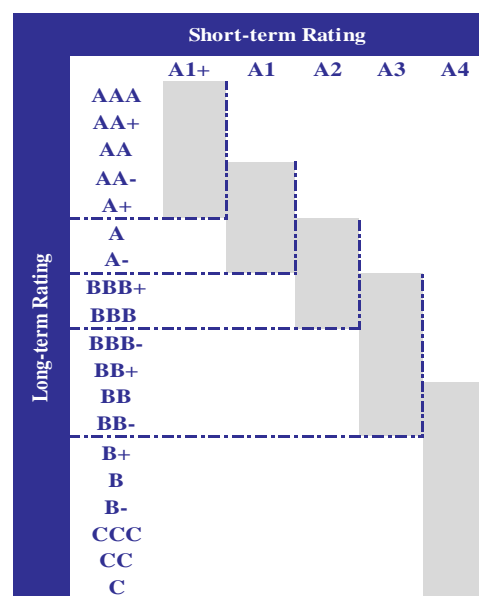
K-Electric Ltd ##	Sep-20 3M	Jun-20 12M	Jun-19 12M	Jun-18 12M
A BALANCE SHEET				
1 Non-Current Assets	367,308	364,369	326,857	277,765
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	360,059	339,037	272,008	195,929
a Inventories	-	-	-	-
b Trade Receivables	105,322	99,832	99,928	103,420
5 Total Assets	727,367	703,406	598,865	473,694
6 Current Liabilities	313,516	295,378	215,752	158,111
a Trade Payables	285,053	267,631	190,795	93,373
7 Borrowings	160,588	155,575	129,511	73,078
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	41,493	41,795	39,113	35,213
10 Net Assets	211,769	210,658	214,489	207,292
11 Shareholders' Equity	211,769	210,658	214,489	207,292
B INCOME STATEMENT				
1 Sales	85,550	288,807	289,119	221,335
a Cost of Good Sold	(71,682)	(244,914)	(238,413)	(170,288)
2 Gross Profit	13,868	43,893	50,706	51,046
a Operating Expenses	(10,192)	(35,307)	(43,103)	(40,163)
3 Operating Profit	3,676	8,586	7,603	10,884
a Non Operating Income or (Expense)	1,490	8,510	7,564	7,371
4 Profit or (Loss) before Interest and Tax	5,166	17,096	15,167	18,255
a Total Finance Cost	(3,021)	(16,737)	(6,285)	(4,214)
b Taxation	(1,035)	(3,318)	8,391	(17)
6 Net Income Or (Loss)	1,111	(2,959)	17,274	14,023
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	13,804	48,785	51,725	48,006
b Net Cash from Operating Activities before Working Capital Changes	10,665	27,160	42,190	45,330
c Changes in Working Capital	(9,101)	(4,512)	(59,074)	(24,710)
1 Net Cash provided by Operating Activities	1,564	22,648	(16,884)	20,620
2 Net Cash (Used in) or Available From Investing Activities	(7,969)	(49,411)	(33,842)	(43,725)
3 Net Cash (Used in) or Available From Financing Activities	3,450	26,415	52,012	6,040
4 Net Cash generated or (Used) during the period	(2,955)	(349)	1,285	(17,065)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	18.5%	-0.1%	30.6%	19.6%
b Gross Profit Margin	16.2%	15.2%	17.5%	23.1%
c Net Profit Margin	1.3%	-1.0%	6.0%	6.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	5.5%	15.3%	-2.5%	10.5%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	2.1%	-1.5%	9.0%	8.1%
2 Working Capital Management				
a Gross Working Capital (Average Days)	109	126	128	162
b Net Working Capital (Average Days)	-185	-163	-51	10
c Current Ratio (Current Assets / Current Liabilities)	1.1	1.1	1.3	1.2
3 Coverages				
a EBITDA / Finance Cost	4.6	2.9	7.8	11.6
b FCFO / Finance Cost+CMLTB+Excess STB	1.0	0.9	1.7	3.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.6	3.5	1.6	0.8
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	43.1%	42.5%	37.6%	26.1%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	7.6%	11.7%	6.2%	6.9%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying debt instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA	
AA-	
A+	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A	
A-	
BBB+	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB	
BBB-	
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B	
B-	
CCC	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*The correlation shown is indicative and, in certain cases, may not hold.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion on debt instrument is carried out on an ongoing basis till the maturity of the instrument or cessation of contract. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
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- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

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- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets (PKR mln)
Rated, Privately Placed, Shariah Compliant, Islamic Commercial Paper (ICP-15)	4,500mln	6 months	Unsecured	N/A	N/A	Bank Islami Pakistan Limited	N/A

Name of Issuer	K-Electric
Issue Date	2-Mar-21
Maturity	2-Sep-21
Option	N/A

Due Date Principal*	Opening Principal	Principal Repayment*	Due Date Markup/ Profit*	Markup/Profit rate	6M Kibor Plus 60bps	Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln							
Issuance								4,320
2-Mar-21	4,320			6M KIBOR + 0.60%	8.25%		-	4,320
2-Sep-21	4,320	4,320	2-Sep-21	6M KIBOR + 0.60%	8.25%	179.66	4,500	-
		4,320				180	4,500	